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GLADWIN CITY-COUNTY TRANSIT GLADWIN, MICHIGAN

FINANCIAL STATEMENTS SEPTEMBER 30, 2006

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RSM McGladrey Network

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gladwin City-County Transit	County Gladwin
Fiscal Year End 9-30-06	Opinion Date 11-01-06	Date Audit Report Submitted to State 12-31-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
X

NO
Z Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.


We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>	No comments or recommendations were noted during the audit.	
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-893-5577	
Street Address 1600 Center Avenue		City Bay City	State MI
		Zip 48707	
Authorizing CPA Signature 		Printed Name Scott A Nietzke	
		License Number 1101022183	

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November 1, 2006

Independent Auditors' Report

Board of Commissioners
Gladwin City Housing Commission
Gladwin, Michigan

We have audited the accompanying financial statements of the business-type activities, its major fund and aggregate remaining fund information of the Gladwin City-County Transit, a component unit of Gladwin County, Michigan, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Gladwin City-County Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, its major fund and aggregate remaining fund information of the Gladwin City-County Transit as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 1, 2006 on our consideration of Gladwin City-County Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that

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Board of Commissioners
Gladwin City Housing Commission
November 1, 2006
Page 2

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis as identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gladwin City-County Transit's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

GLADWIN CITY-COUNTY TRANSIT
Management's Discussion & Analysis
For the Year Ended September 30, 2006

Our discussion and analysis of the Gladwin City-County Transit's financial performance provides an overview of Transit's activities of the year ended September 30, 2006.

The Gladwin City-County Transit System (Transit), a component unit of Gladwin County, is a county-wide transportation system created by an inter-local agreement dated June 22, 1981, between the County of Gladwin and the City of Gladwin. Administrative control of the system was transferred to the Gladwin City Housing Commission with the County Treasurer acting as fiscal agent. The Transit may not issue debt and the tax levy is subject to Gladwin County Board of Commissioners' approval. The Transit's taxes are levied under the taxing authority of Gladwin County's total tax levy and are reported in the Public Transit Fund.

Financial Highlights

Gladwin City-County Transit reported a change in net assets of (\$66,000) for the year, resulting in ending net assets of \$1,633,000.

Using this Annual Financial Report

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of Gladwin City-County Transit. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Reporting Transit as a Whole

The *government-wide financial statements* are designed to provide readers with a broad overview of the Transit's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Transit's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Transit is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the Transit's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

GLADWIN CITY-COUNTY TRANSIT
Management's Discussion & Analysis
For the Year Ended September 30, 2006

Reporting on Public Transportation

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Transit, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds. Proprietary funds are reported in the fund financial statements and generally report services for which the Government charges the customer a fee. Proprietary funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The Transit uses a proprietary fund to account for Public Transportation.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

Financial Analysis of Public Transportation

The most common financial question posed to the Transit is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the Transit's activities in a way that will help answer this question. The two statements report the net assets of the Transit and the change in them.

Exhibit A below summarizes the statement of net assets.

Exhibit A

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 759,000	\$ 603,000
Capital assets - net of accumulated depreciation	944,000	1,205,000
Total assets	<u>1,703,000</u>	<u>1,808,000</u>
Liabilities		
Current liabilities	<u>70,000</u>	<u>109,000</u>
Net Assets		
Investment in capital assets	944,000	1,205,000
Unrestricted	689,000	494,000
Total net assets	<u>\$ 1,633,000</u>	<u>\$ 1,699,000</u>

GLADWIN CITY-COUNTY TRANSIT
Management's Discussion & Analysis
For the Year Ended September 30, 2006

Exhibit A focuses on the net assets of the Transit, which were \$1,633,000 at September 30, 2006. Investment in capital assets, totaling \$944,000, compares the original cost, less depreciation of the Transit's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$689,000 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the Transit are reported in the statement of activities, as summarized in Exhibit B, which shows the changes in net assets for the year ended September 30, 2006.

Exhibit B

	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for service	\$ 200,000	\$ 227,000
Operating grants	667,000	622,000
Capital grants	12,000	140,000
General revenue:		
Property and other taxes	393,000	357,000
Other	(10,000)	2,000
Interest income	<u>18,000</u>	<u>10,000</u>
Total revenue	1,280,000	1,358,000
Function/Program Expenses		
Public Transportation	<u>1,346,000</u>	<u>1,463,000</u>
Increase (Decrease) in Net Assets	<u><u>\$ (66,000)</u></u>	<u><u>\$ (105,000)</u></u>

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The Transit had \$944,000, net of accumulated depreciation, invested in capital assets as of September 30, 2006. The investment in capital assets includes land, building, equipment and dwelling equipment.

GLADWIN CITY-COUNTY TRANSIT
Management's Discussion & Analysis
For the Year Ended September 30, 2006

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 27,000	\$ 27,000
Buildings and improvements	1,017,000	1,017,000
Equipment	392,000	380,000
Buses and vehicles	<u>1,463,000</u>	<u>1,598,000</u>
 Total capital assets	 2,899,000	 3,022,000
 Less accumulated depreciation	 <u>1,955,000</u>	 <u>1,817,000</u>
 Net capital assets	 <u><u>\$ 944,000</u></u>	 <u><u>\$ 1,205,000</u></u>

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the Transit's finances for all those with an interest in the Transit. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mrs. Sheila M. Hall
Transportation Coordinator
Gladwin City-County Transit
615 Weaver Court
Gladwin, MI 48624

GLADWIN CITY-COUNTY TRANSIT
Statement of Net Assets
September 30, 2006

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 545,101
Accounts receivable	11,294
Due from other governmental units	85,854
Inventory	39,526
Prepaid expenses	77,142
Capital assets less accumulated depreciation of \$1,955,152	<u>944,255</u>
Total assets	<u>1,703,172</u>
<u>Liabilities</u>	
Accounts payable	30,387
Accrued payroll	12,860
Deferred revenue	8,733
Compensated absences	<u>18,477</u>
Total liabilities	<u>70,457</u>
<u>Net Assets</u>	
Investment in capital assets	944,255
Unrestricted	<u>688,460</u>
Total net assets	<u><u>\$ 1,632,715</u></u>

See accompanying notes to financial statements.

GLADWIN CITY-COUNTY TRANSIT
Statement of Activities
For the Year Ended September 30, 2006

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Business- Type Activities
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type activities					
Public transportation	<u>\$ 1,346,091</u>	<u>\$ 199,949</u>	<u>\$ 667,122</u>	<u>\$ 11,998</u>	\$ (467,022)
			General revenues:		
			Property taxes		393,492
			Interest income		17,736
			Sale of asset		(13,942)
			Other		<u>3,466</u>
			Change in net assets		(66,270)
			Net assets - beginning of year		<u>1,698,985</u>
			Net assets - end of year		<u>\$ 1,632,715</u>

See accompanying notes to financial statements.

GLADWIN CITY-COUNTY TRANSIT
Statement of Net Assets
Proprietary Fund
September 30, 2006

	<u>Business-Type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 545,101
Accounts receivable	11,294
Due from other governmental units	85,854
Inventory	39,526
Prepaid expenses	<u>77,142</u>
Total current assets	758,917
<u>Property and Equipment</u>	
Property and equipment less accumulated depreciation of \$1,955,152	<u>944,255</u>
Total assets	<u>1,703,172</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	30,387
Accrued payroll	12,860
Deferred revenue	8,733
Compensated absences	<u>18,477</u>
Total liabilities	<u>70,457</u>
<u>NET ASSETS</u>	
Investment in capital assets	944,255
Unrestricted	<u>688,460</u>
Total net assets	<u><u>\$ 1,632,715</u></u>

See accompanying notes to financial statements.

GLADWIN CITY-COUNTY TRANSIT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

	Business-type Activities <u>Enterprise Fund</u>
Operating revenues	\$ 199,949
Operating expenses	<u>1,346,091</u>
Net operating loss	<u>(1,146,142)</u>
Non-operating revenues:	
Local	400,752
State and Federal	<u>667,122</u>
Total non-operating revenues	<u>1,067,874</u>
Loss before capital contributions	(78,268)
Capital contributions - State and Federal	<u>11,998</u>
Decrease in net assets	<u>(66,270)</u>
Net assets - beginning of year	<u>1,698,985</u>
Net assets - end of year	<u><u>\$ 1,632,715</u></u>

See accompanying notes to financial statements.

GLADWIN CITY-COUNTY TRANSIT
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2006

	Business-type Activities <u>Enterprise Fund</u>
<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 193,173
Cash payments to employees for services	(811,199)
Cash payments to suppliers for goods and services	<u>(298,073)</u>
Net cash used by operating activities	<u>(916,099)</u>
<u>Cash flows from non-capital financing activities</u>	
Other income	3,466
State and federal grants	563,318
Property taxes	<u>393,492</u>
Net cash provided by non-capital and related financing activities	<u>960,276</u>
<u>Cash flows from capital and related financing activities</u>	
Proceeds from the sale of assets	33,112
Acquisition and construction of fixed assets	<u>(11,998)</u>
Net cash provided by capital and related financing activities	<u>21,114</u>
<u>Cash flows from investing activities</u>	
Interest income	<u>17,736</u>
Net increase in cash and cash equivalents	83,027
Cash and cash equivalents at beginning of year	<u>462,074</u>
Cash and cash equivalents at end of year	<u><u>\$ 545,101</u></u>

See accompanying notes to financial statements.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladwin City-County Transit (Transit) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Transit.

Reporting Entity

The Gladwin City-County Transit System, a component unit of Gladwin County, is a county-wide transportation system created by an inter-local agreement dated June 22, 1981, between the County of Gladwin and the City of Gladwin. Administrative control of the system was transferred to the Gladwin City Housing Commission with the County Treasurer acting as fiscal agent. The Transit may not issue debt and the tax levy is subject to Gladwin County Board of Commissions' approval. The Transit taxes are levied under the taxing authority of Gladwin County total tax levy and are reported in the Public Transit Fund. The fiscal year of the Transit is October 1 through September 30.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Gladwin City-County Transit, a component unit of Gladwin County.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely on a significant extent of fees and charges for support. All of Transit's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include, (1) charges to customers, or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate fund financial statements are provided for the major enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges for transportation. Gladwin City-County Transit also recognizes charges for freight tariffs and advertising. Operating expenses for proprietary funds include the cost of maintenance, utilities, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables – Accounts receivable consist of advertising and contract transportation charges. Accounts receivable are stated at actual since Transit utilizes the direct write-off method for bad debts. The direct write-off method recognizes a bad debt expense only when a specific account is determined to be uncollectible. The application of this method is not deemed materially different than the allowance method which is prescribed for purposes of U.S. generally accepted accounting principles.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Improvements	10-20 years
Equipment	3-10 years
Vehicles	3-12 years

Use of Estimates

The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Revenues

For the taxpayers of Gladwin City-County Transit, properties are assessed as of December 31, and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated vacation pay. The liability has been calculated using the vesting method, in which the obligation for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS

State statutes and the Transit's investment policy authorize the Transit to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Transit is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. Gladwin City-County's deposits are in accordance with statutory authority.

At year-end, Gladwin City-County Transit's deposits were reported in the basic financial statements as follows.

	<u>Business-Type Activities</u>
Bank deposits (checking and savings)	\$ 106,461
Cash held by the County Treasurer	438,490
Petty cash and cash on hand	<u>150</u>
Total	<u>\$ 545,101</u>

Interest Rate Risk

In accordance with its investment policy, the Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2006, Gladwin City-County's had no investments.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, Gladwin City-County Transit's deposits may not be returned to it. As of September 30, 2006, \$449,688 of the Transit's bank balance of \$549,688 was exposed to custodial credit risk because it was uninsured and uncollateralized.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the Transit for the current year was as follows.

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 14,135	\$ 0	\$ 0	\$ 14,135
Construction in progress	0	0	0	0
Subtotal	<u>14,135</u>	<u>0</u>	<u>0</u>	<u>14,135</u>
Capital Assets Being Depreciated:				
Building and improvements	1,016,630	0	0	1,016,630
Land improvements	12,600	0	0	12,600
Buses/vehicles	1,598,407	0	(134,864)	1,463,543
Equipment	<u>380,501</u>	<u>11,998</u>	<u>0</u>	<u>392,499</u>
Subtotal	<u>3,008,138</u>	<u>11,998</u>	<u>(134,864)</u>	<u>2,885,272</u>
Less Accumulated Depreciation for:				
Building and improvements	391,049	51,930	0	442,979
Land improvements	12,600	0	0	12,600
Buses/vehicles	1,131,577	157,846	(87,810)	1,201,613
Equipment	<u>282,005</u>	<u>15,955</u>	<u>0</u>	<u>297,960</u>
Subtotal	<u>1,817,231</u>	<u>225,731</u>	<u>(87,810)</u>	<u>1,955,152</u>
Net Capital Assets Being Depreciated	<u>1,190,907</u>	<u>(213,733)</u>	<u>(47,054)</u>	<u>930,120</u>
Net Capital Assets	<u>\$ 1,205,042</u>	<u>\$ (213,733)</u>	<u>\$ (47,054)</u>	<u>\$ 944,255</u>
	Purchased with System Funds	Purchased with Capital Grants	Total	
Building and improvements	\$ 292,494	\$ 724,136	\$ 1,016,630	
Land and improvements	26,735	0	26,735	
Buses/vehicles	38,282	1,425,261	1,463,543	
Equipment	<u>79,840</u>	<u>312,659</u>	<u>392,499</u>	
Total Capital Assets	<u>437,351</u>	<u>2,462,056</u>	<u>2,899,407</u>	
Less accumulated depreciation	<u>210,621</u>	<u>1,744,531</u>	<u>1,955,152</u>	
Net Capital Assets	<u>\$ 226,730</u>	<u>\$ 717,525</u>	<u>\$ 944,255</u>	

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 4 – RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (1,146,142)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	225,731
Change in assets and liabilities:	
Accounts receivable	(6,776)
Inventory	4,184
Prepaid expenses	(2,164)
Accounts payable	12,750
Salaries and wages	(566)
Compensated absences	<u>(3,116)</u>
Net cash used by operating activities	<u><u>\$ (916,099)</u></u>

NOTE 5 - PENSION PLAN

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Gladwin City–County Transit participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Gladwin City–County Transit, through its association with the City of Gladwin. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by the Gladwin City–County Transit on November 8, 2003, by resolution of the Board. The plan requires a 3% contribution by the employees to the System. The Transit is required to contribute based on an actuarially determined rate.

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 5 - PENSION PLAN (CONTINUED)

Annual Pension Costs – For year ended September 30, 2006, the Transit's annual pension cost of \$32,010 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal actuarial cost method. Significant actuarial assumptions used include, (1) an 8.0% investment rate of return, (2) projected salary increase of 4.5% per year, and (3) 4.5% per year cost of living adjustments. It was determined using techniques that smooth the effects of short-term volatility over a four-year period.

NOTE 6 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The following three year trend information as of December 31, 2005 is for the entire Gladwin City Housing Commission:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 55,848	\$ 51,468	\$ 112,718
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	618,017	722,529	878,150
Actuarial accrued liability	1,124,936	1,190,977	2,010,435
Unfunded AAL	506,919	468,448	1,132,285
Funded ratio	55%	61%	44%
Covered payroll	759,907	728,880	705,810
UAAL as a percentage of covered payroll	67%	64%	160%

GLADWIN CITY-COUNTY TRANSIT
Notes to Financial Statements
For the Year Ended September 30, 2006

NOTE 7 – RISK MANAGEMENT

The Transit is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employers, and natural disasters. The Transit manages risk through the purchase of commercial insurance.

The Transit is a member of the Housing Authority Risk Retention Group (HARRG), Housing Authority Property Insurance Group (HAPI), and the Housing Insurance Services (HIS); which are subsidiaries of the parent company Housing Authority Insurance (HAI). HARRG, HAPI, and HIS are public entity risk pools. Public entity risk pools are cooperative groups of governmental entities joining together to finance an exposure, liability, or risk. Liability insurance is provided to the Transit by HARRG and property insurance is provided by HAPI and auto insurance is provided by HIS. More specifically, HARRG is classified as a risk sharing pool, which is an arrangement by which government's pool risks and funds and share in the cost of losses. HAPI is an insurance purchasing pool, which is an arrangement by which governments pool funds or resources to purchase commercial insurance products. HAPI buys property and casualty insurance from the Travelers Indemnity Company who reinsures the coverage with the American Reinsurance Company.

To be a part of HAPI, HARRG and HIS, the Transit was required to make an initial surplus contribution. Premiums are then paid to the pools throughout the year to remain a member. Additional surplus contributions may be required by the pools in order to maintain adequate surplus to premium ratios for each member. HAPI, HARRG and HIS keep record of surplus accounts for each member.

These accounts include initial and additional surplus contributions plus any dividends declared or paid to the member and any other adjustments for earnings and losses based upon a member's underwriting experience. Upon withdrawal, the Transit would be entitled to receive total surplus contributions paid in over a five year period or to leave its surplus account with the pools and share in all allocations as if it were still a member.

The Transit also participates in the Michigan Transit Insurance Pool, which provides insurance covering system vehicles.

NOTE 8 – CONTINGENCIES

The Transit receives significant financial assistance from Federal and State governmental agencies in the form of operating and capital grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Transit. However, in the opinion of management, any disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Transit.

GLADWIN CITY-COUNTY TRANSIT
Notes to the Financial Statements
For the Year Ended September 30, 2005

NOTE 9 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Transit operates in a heavily regulated environment. The operations of the Transit are subject to the administrative directives, rules and regulations of federal, and state and local regulatory agencies, including, but not limited to, the Michigan Department of Transportation. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by the Michigan Department of Transportation. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

GLADWIN CITY-COUNTY TRANSIT
Schedule of Operating Revenues
Proprietary Fund
For the Year Ended September 30, 2006

<u>Operating Revenues</u>	<u>Business-type Activities Enterprise Fund</u>
Demand - Response (Farebox)	\$ 190,505
Freight tariffs	180
Advertising	<u>9,264</u>
Total Operating Revenues	<u><u>\$ 199,949</u></u>

GLADWIN CITY-COUNTY TRANSIT
Schedule of Operating Expenses
Proprietary Fund
For the Year Ended September 30, 2006

	<u>Business-type Activities - Enterprise Fund</u>			
	<u>Operations</u>	<u>Maintenance</u>	<u>Administration</u>	<u>Total</u>
Labor:				
Operators salaries and wages	\$ 306,098	\$ 0	\$ 0	\$ 306,098
Other salaries and wages	90,585	104,616	129,324	324,525
Fringe benefits	81,971	31,211	63,712	176,894
Advertising fees	0	0	7,305	7,305
Other services	0	18,028	14,184	32,212
Materials and supplies consumed:				
Fuel and lubricants	105,889	0	0	105,889
Tires and tubes	8,826	0	0	8,826
Other materials and supplies	32,214	22,542	9,282	64,038
Utilities	0	0	34,049	34,049
Auxiliary transportation	0	0	465	465
Insurance	43,150	0	3,549	46,699
Miscellaneous:				
Travel and meetings	1,751	44	7,515	9,310
Dues and subscriptions	0	0	1,649	1,649
Other miscellaneous	2,184	0	217	2,401
Depreciation	<u>203,179</u>	<u>11,276</u>	<u>11,276</u>	<u>225,731</u>
Total Operating Expenses	<u>\$ 875,847</u>	<u>\$ 187,717</u>	<u>\$ 282,527</u>	<u>\$ 1,346,091</u>

GLADWIN CITY-COUNTY TRANSIT
Schedule of Non-operating Revenues - Local
Proprietary Fund
For the Year Ended September 30, 2006

	Business-type Activities <u>Enterprise Fund</u>
Local operating assistance:	
Property taxes	<u>\$ 393,492</u>
Other revenues:	
Interest income	17,736
Sale of assets	(13,942)
Miscellaneous	<u>3,466</u>
Total other revenues	<u>7,260</u>
Total Non-operating Revenues - Local	<u><u>\$ 400,752</u></u>

GLADWIN CITY-COUNTY TRANSIT
Schedule of Non-operating Revenues - State and Federal
Proprietary Fund
For the Year Ended September 30, 2006

	Business-type Activities <u>Enterprise Fund</u>
State of Michigan Operating Grants:	
State operating assistance (Act 51)	<u>\$ 450,929</u>
Federal Operating Grants:	
US DOT Operating Grant - Section 5311	195,276
Rural transit assistance programs	<u>3,500</u>
Total Federal Operating Grants	198,776
State and Federal Grants - Prior Year Adjustments	<u>17,417</u>
Total Non-operating Revenues - State and Federal	<u><u>\$ 667,122</u></u>

GLADWIN CITY-COUNTY TRANSIT
Schedule of Capital Grants - State and Federal
Proprietary Fund
For the Year Ended September 30, 2006

	Assets Purchased Or Constructed	<u>Business-type Activities - Enterprise Fund</u>		
		Federal Share	State Share	Total
<u>State and Federal Capital Grants</u>				
State Grant Number 2002-0038	Tractor/Computer	\$ 9,598	\$ 2,400	\$ 11,998
Capital Assistance - Section 5311				
Total Capital Grants - State and Federal		<u>\$ 9,598</u>	<u>\$ 2,400</u>	<u>\$ 11,998</u>

GLADWIN CITY-COUNTY TRANSIT
Schedule of Net Eligible Cost Computations
Proprietary Fund
For the Year Ended September 30, 2006

	Business-type Activities Enterprise Fund	
	Federal Section 5311	State Operating Assistance
Operating expenses:		
Labor	\$ 630,623	\$ 630,623
Fringe benefits	176,894	176,894
Services	39,517	39,517
Materials and supplies	178,753	178,753
Utilities	34,049	34,049
Auxiliary transportation	465	465
Casualty and liability insurance	46,699	46,699
Miscellaneous	13,360	13,360
Depreciation	225,731	225,731
Total operating expenses	<u>1,346,091</u>	<u>1,346,091</u>
Less ineligible expenses:		
Depreciation	191,904	191,904
Rural transit assistance programs	3,500	3,500
Auxiliary transportation	465	465
Dues and subscriptions	91	91
Regional Rodeo costs	1,267	1,267
Total ineligible expenses	<u>197,227</u>	<u>197,227</u>
Net eligible expenses	<u>1,148,864</u>	
Less project revenue:		
Freight tariffs	180	0
Total project revenue	<u>180</u>	<u>0</u>
Net Federal Section 5311	<u>\$ 1,148,684</u>	
Lower of:		
Federal Section 5311 Reimbursement (17.0 percent)	<u>\$ 195,276</u>	
Contract amount	<u>\$ 212,058</u>	
Net Eligible State Operating Expenses		<u>\$ 1,148,864</u>
Maximum State Operating Assistance (60 percent)		<u>\$ 689,318</u>
Formula Reimbursement (39.25 percent)		<u>\$ 450,929</u>
1997 Operating Assistance Floor		<u>\$ 351,974</u>

GLADWIN CITY-COUNTY TRANSIT
Mileage Data - Unaudited
For the Year Ended September 30, 2006

	Public Transportation Mileage
Demand - Response	
First Quarter	104,267
Second Quarter	100,528
Third Quarter	104,236
Fourth Quarter	<u>93,262</u>
Total Demand-Response	<u><u>402,293</u></u>

The methodology used for compiling has been reviewed and found to be an adequate and reliable method of recording vehicle mileage.

GLADWIN CITY-COUNTY TRANSIT
Schedule of Ineligible Expenses and Revenues
Proprietary Fund
For the Year Ended September 30, 2006

Program	Description	Business-type Activities Enterprise Fund	
		Federal Section 5311 Per OMB Circular A-37	State Operating Assistance Per Revenue and Expense Manual
Rural Transportation Administration	1 Depreciation: Depreciation on contributed capital provided from federal and state grants must be deducted as an ineligible expense	\$ 191,904	\$ 191,904
Operating grants listed on Schedule of Federal and State Awards	2 Ineligible Rural Transportation Assistance Program expenditures	3,500	3,500
	3 Other ineligible expense associated with auxiliary and nontransportation - bus signs	465	465
	4 Ineligible percent of association dues	91	91
	5 Other ineligible expense associated with regional rodeo	1,267	1,267
	6 Auxiliary transportation revenue: Eligible expenses are reduced by auxiliary transportation revenue	180	0

GLADWIN CITY-COUNTY TRANSIT
Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Grantor Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue Oct. 1, 2005	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue Sept. 30, 2006
<u>U.S. Department of Transportation</u> Passed through Michigan Department of Transportation: Operating Capital Assistance Section 5311 (FY05)	20.509	2002-0038	\$ 158,792	\$ 151,945	\$ 5,962	\$ 0	\$ 5,908	\$ 0	\$ 54
Operating Capital Assistance Section 5311 (FY06)	20.509	2002-0038	212,058	0	0	0	121,474	195,276	73,802
Rural Transit Assistance Programs Section 5311	20.509	2002-0038	1,083	0	0	0	1,083	1,083	0
Rural Transit Assistance Programs Section 5311	20.509	2002-0038	2,417	0	0	0	2,417	2,417	0
Capital Assistance Section 5311	20.509	2002-0038	36,800	23,076	0	0	0	9,598	9,598
Total Federal Assistance				23,076	0	0	130,882	208,374	83,454
<u>Michigan Department of Transportation</u> Operating Assistance Act 51 2005-2006 Capital Assistance Section 5311 Match			450,929	0	0	0	459,662	450,929	(8,733)
Total State Assistance		2002-0038	9,200	5,769	0	0	0	2,400	2,400
Total Federal and State Assistance				5,769	0	0	459,662	453,329	(6,333)
				\$ 28,845	\$ 0	\$ 0	\$ 590,544	\$ 661,703	\$ 77,121



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

November 1, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Gladwin City Housing Commission
Gladwin, Michigan

We have audited the financial statements of the business-type activities and the major fund of Gladwin City-County Transit as of and for the year ended September 30, 2006, which collectively comprise the Transit's basic financial statements and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gladwin City-County Transit's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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WEINLANDER FITZHUGH

Board of Commissioners
Gladwin City-County Transit
November 1, 2006
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin City-County Transit's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Commissioners, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh